

HSDA Worksheet 1
SECTION VI CONTROL ACTIVITIES

Part 1 Strategic, Operations and Reporting Objectives: HSDA

Objective: Respond to the identified inherent risks to the organization's Strategic, Operations and Reporting objectives in order to determine the residual risks. Determine the effectiveness of those control activities.

1. Address the following risks and add any identified agency-specific risks due to fraud.
2. For each risk, estimate the potential impact to the agency assuming the risk occurs. Use High, Medium or Small (or Low).
3. For each risk, assess the likelihood of the risk occurring. Use Probably, Reasonably Possible or Remote. Alternatively, use High, Medium or Low.
4. For each risk with large or moderate impact and probable (high) or reasonably possible (medium) likelihood of occurrence, list the control activity to mitigate the risk to an acceptable level. If no control activity is present to manage the risk, a corrective action plan should be completed and attached. Any N/As should be explained.

Fraud Risks are identified in Part III of this section.

1. BUDGET					
1	Strategic	Budget does not provide for adequate funding to meet the agency's mission, goals and objectives.	M	M	Significant/material programs/activities are prioritized to ensure the agency's mission, goals, objectives are met. Executive Director reviews budget prepared by Director of Administrative Services (DAS) based on past actual expenditures.
					Yes

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2	Operations	Agency failed to operate efficiently within their budgeted parameters.	M	Inherent: M Residual (with controls): L	Central controls related to salary, benefits, travel, procurement, rent, IT ensure efficiency measures. Management oversight assures day-to-day focus on efficiency.	Yes
3		Budget not prepared timely	M	L	DAS receives multiple communications from Division of Budget noting deadlines. DAS and ED set internal timeline for preparation and review.	Yes
4		Finance and Administration not informed in time of expenditures in excess of appropriations or the budget.	M	L	Executive Director and DAS periodically review budget position with year to date expenditures. System rejects expenditures that are over budget.	Yes
5		Agency failed to fulfill their legislative mandates.	M	Inherent: M Residual (with controls): L	Management periodically reviews progress toward strategic plan goals which reflect legislative mandates.	Yes
6		Budget fails to provide effective management and cost control.	M	Inherent: M Residual (with controls): L	Executive Director and DAS periodically review budget position with year to date expenditures. System rejects expenditures that are over budget.	Yes
7		Unexpected cut in federal funding.	NA	NA	Agency receives no federal funds.	NA
8		Unexpected decline in revenue collections.	M	Inherent: M Residual (with controls): L	Management follows trends and factors related to healthcare in order to project future overall likely Certificate of Needs revenues.	Yes
9		Unexpected increase in expenditure requirements due to unforeseen casualty losses.	H	L	Accept risk of flood, fire, tornado, earthquake or hurricane. State Self-Insured.	Yes

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10	Reporting	Expenditures are not recorded to the proper budget control account/allotment code.	L	L	Only one cost center	Yes
11		Appropriations are not recorded to the proper budget control account/allotment code.	M	L	DAS verifies that annual appropriations for HSDA are properly recorded in the state accounting system. Agency has only 1 allotment code.	Yes
12		Additional Agency-Specific Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?

2. CASH DISBURSEMENTS/EXPENDITURES

13	Strategic	Ineffective management of cash outflows results in the lack of maximization of State resources.	L	L	Cash flow for most expenditures (salary, benefits, rent) is centrally controlled.	Yes
14	Operations	Expenditure not recorded against proper purchase order or contract.	L	L	Agency follows state procurement policy through routine comparison of expenditures and PO's by DAS and Shared Services Solutions.	Yes
15		Cash disbursement exceeds invoice amounts.	L	L	No cash disbursements; Payables process includes review of amount to be pd vs. invoice by DAS, Executive Director and Division of Accounts for payments >\$2000.	Yes
16		Agency pays for insufficient goods/services.	M	Inherent: M Residual (with controls): L	Payment is not authorized without careful review by DAS. Primary impact risk relates to legal or state professional services via JV. Legal services JVs are also reviewed by General Counsel.	Yes
17		Due to untimely payment, agency incurs late fees.	L	L	Implicit office policy is that fiscal officer pays invoices as soon as possible after they arrive and alerts Executive Director to any outstanding invoices requiring additional time for research.	Yes

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18	Agency pays for goods and services beyond vendor's quotes.	L	L	Vendor estimates are compared to invoices by fiscal officer and reviewed by Executive Director	Yes
19	Agency fails to collect on cash advances.	L	L	No cash advances.	Yes
20	Subrecipients are not reimbursed timely causing a financial burden for the subrecipient.	NA	NA	HSDA has no subrecipients.	NA
21	Agency pays for goods not ordered.	L	L	AA1 verifies receipt of items and sends invoice to DAS who matches packing slip to purchase authorizations and questions anything that does not reconcile. Exec Director reviews requests for payment and would question any request to pay for unauthorized goods.	Yes
22	Agency overspends grant award.	NA	NA	HSDA has no federal grants.	NA
23	Reporting Outgoing cash flow is recorded in wrong period.	L	Inherent: M Residual (with controls): L	Appropriate cut-off procedures are established and periodically reviewed.	Yes
24	Expenditures not recorded in proper fund.	L	L	only 1 fund	Yes
25	Expenditure not recorded under proper financial statement function.	L	L	Agency does not prepare separate financial statements. Executive Director reviews coding by DAS.	Yes
26	Claimant submits claim for reimbursement twice and both claims are paid by agency.	L	L	Policy is to pay only from originals and avoid duplicate payments by reviewing payment file. Edison has duplicate controls also.	Yes
27	Vendor invoices received prior to month-end are incorrectly recognized as an expenditure in the following year.	L	L	DAS analytically reviews invoices to determine when expenditures should be recognized	Yes
28	Vendors are paid from statements as well as invoices, resulting in duplicate payments.	NA	NA	Vendors are not paid from statements	Yes
29	Invoices are not marked paid resulting in duplicate payments.	L	L	Policy is to pay only from originals and avoid duplicate payments by reviewing payment file. Edison has duplicate controls also.	Yes

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30	Expired or unnecessary encumbrances remain on the books due to uncanceled purchase orders.	L	L	All encumbrances at year-end are reviewed by DAS for propriety.	Yes
31	Expenditures incurred through the petty cash fund are not recorded as expenditures in accounting system before year end.	NA	NA	No petty cash fund.	NA
32	A manual check is not recorded in the system.	NA	NA	No manual checks	NA
33	Requisitions are not encumbered at year-end under modified accrual funds.	L	L	DAS follows YE policies.	Yes
34	Expenditures are not recorded in accordance with GAAP due to inadequately trained accounting personnel.	M	L	DAS is experienced and, by agency policy, participates in periodic training for state agency fiscal directors.	Yes
35	Indirect costs are not posted to accounting records when drawdowns are made.	NA	NA	HSDA has no federal grants.	NA
	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
36	Inadequate segregation of duties over the procurement function	M	M	Per revised 2011 procedures, DAS submits purchasing needs in writing (via email) to Shared Services Solutions (SSS). SSS staff determines proper procurement procedure and makes purchase. AA1 verifies receipt of goods and sends invoice to DAS for review, coding & approval. HSDA scans invoice and sends to SSS for voucher entry. ED and DAS are notified of voucher via email and then approves payment voucher after review in Edison.	Yes
3. CASH RECEIPTS/REVENUES					

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37	Strategic	Cash/Revenue collection efforts are inadequate to fund the agency's missions.	L	L	Agency is funded through general fund.	Yes
38	Operations	Agency fails to earn adequate interest on cash deposits.	L	L	Deposits are made regularly per Policy 25; but decisions on interest bearing accounts are made by State Treasurer's office.	Yes
39		Bank fails to credit agency's bank account properly.	M	L	DAS reviews deposit slips and periodic testing and reconciliation by SSS.	Yes
40		Federal drawdowns are made late.	NA	NA	HSDA has no federal grants.	NA
41		Agency fails to bill for all services rendered.	L	L	Billing is only applicable for hard copy and recordings of meetings. Most copies are sent electronically due to the Public Records Act. Transcripts can also be received from the court reporter.	Yes
42		Customer billings fail to cover costs incurred.	L	L	Most copies sent electronically, so no significant cost incurred that would need to be covered by customer billings.	Yes
43		Agency is not reimbursed for federal expenditures incurred due to late reimbursement request.	NA	NA	HSDA has no federal grants.	NA
44		Agency is not reimbursed for federal expenditures due to lack of drawdown request.	NA	NA	HSDA has no federal grants.	NA
45		Federal Funds are drawn before the Federal disbursements are made.	NA	NA	HSDA has no federal grants.	NA
46		Cash is not deposited in the bank in a timely manner causing the agency to lose potential investment income.	H	M	Specific written procedures outline steps to assure timely deposit. SSS conducts independent review and reports on agency compliance with Policy 25.	Yes

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47	Reporting	Revenues are recorded before earned.	M	L	No advance documentation of revenues is possible and documentation is required for recording revenues.	Yes
48		Revenues are recorded before available and measurable under modified accrual funds.	M	L	No advance documentation of revenues is possible and documentation is required for recording revenues.	Yes
49		Revenue recorded in customer database does not match actual payment made by customer.	NA	NA	No separate central customer database	NA
50		Revenues recorded in system do not match amounts deposited or received.	M	L	No cash receipts. Deposits are reconciled. SSS conducts independent reconciliation.	Yes
51		Deposits are not recorded in the proper period.	H	Inherent: M Residual (with controls): L	All deposits are made in accordance with F&A policy 25. Immediate processing in Inovah means checks are recorded in proper period.	Yes
52		Revenue is recorded in incorrect revenue category.	M	L	AA1 selects CON fee or copy fee when entering checks in Inovah. Category is reviewed by DAS in Inovah approval process.	Yes
53		Revenue is not recorded in accordance with GAAP due to inadequate training of accounting personnel.	L	L	DAS is experienced and, by agency policy, participates in periodic training for state agency fiscal directors.	Yes
54		Agency is reimbursed for federal funds before expenditure is incurred resulting in unearned revenue recognition.	NA	NA	HSDA has no federal grants.	NA
55		Deferred revenue is not transferred to earned revenue in the period earned.	NA	NA	No deferred revenue	NA
56		Direct deposits are recorded in wrong period.	L	L	No direct deposits of revenue	Yes

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57	Person receiving cash fails to stamp check with agency's account number and check is deposited in wrong account.	M	L	Inovah authomatically prints correct information on check.	Yes
58	Check is lost in route to bank resulting in receipts not matching cash deposited.	M	L	DAS carries receipts in secure pouch to bank and reconciles check log with deposits. SSS also conducts independent reconciliation. When fully implemented, electronic cashiering function of Edison will further reduce this risk.	Yes
59	Cash receipt clerk totals deposit slip incorrectly and bank records incorrect deposit amount.	M	Inherent: M Residual (with controls): L	DAS immediately checks to ensure that the CD amount and bank deposit slip amounts match and gets an immediate correction if there is any difference.	Yes
60	Date cash received is not recorded on remittance support.	L	L	No cash is received	Yes
61	Excess cash collections are recorded as revenue instead of as a liability.	L	L	No cash collected	Yes
62	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
63	ASA compares receipts w/deposit slip prior to deposit instead of with the deposit ticket from the bank after deposit is made.	M	M	Procedures revised in 2008 and updated 2010 include ASA comparison of receipts, CDs and deposit tickets both before and after bank deposit.	Yes
64	Cash receipting duties inadequately segregated, resulting in errors not caught.	M	M	Written procedures revised in 2008 and updated 2010 include segregation of duties and back-up segregations with documentation by different roles during the process. SSS conducts independent reconciliation of receipts, CDs, deposit tickets and state accounting records as additional compensating control.	Yes
4. CASH MANAGEMENT					

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65	Strategic	Inadequate cash on hand to support organization's mission/vision.	M	L	State Treasurer's office handles this.	Yes
66	Operations	An agency's uninsured/uncollateralized deposits with an insolvent depository are unrecoverable.	M	L	State Treasurer's office handles this.	Yes
67		An agency as a public depositor does not ensure that its title as a public depositor is listed on all bank accounts and certificate of deposits resulting in those deposits not qualifying for claim reimbursement from the collateral pool as a result of an insolvency of the depository.	M	L	State Treasurer's office handles this.	Yes
68		Fund transfers to other bank accounts are not recorded in bank ledger resulting in insufficient funds upon a bank debit.	L	L	Only 1 bank account, so no transfers	Yes
69		Significant time lapse between drawdowns of funds from Treasury and actual receipt/recording of funds.	NA	NA	No drawdowns	NA
70		A returned check is not followed up on in a timely manner resulting in diminishing probability of collection.	L	L	DAS supervised by Executive Director is responsible for follows up; HSDA has had no returned checks.	Yes
71		Agency's checks have no void time frame printed on checks resulting in check remaining on outstanding check list for an excessively long amount of time or checks outstanding for a long period of time are not cancelled.	NA	NA	Check formats centrally controlled.	NA

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72	Reporting	Fees charged by a financial institution are not reported in the financial records understating expenditures and overstating cash.	NA	NA	State Treasurer's office handles this.	NA
73		A certificate of deposit with an original maturity date of 24 months is incorrectly classified as cash equivalent.	NA	NA	State Treasurer's office handles this.	NA
74		An investment maturity automatically deposited in checking account is not properly recorded in accounting records.	NA	NA	No investment maturities automatically deposited in checking account.	NA
75		A returned check is not recorded in the accounting records.	L	L	DAS supervised by Executive Director is responsible for follow up. HSDA has had no returned checks.	Yes
76		Deposits made from a separate collection location is forwarded late to the main office and therefore not recorded in accounting records timely resulting in misstatement of cash on year end financial statements.	NA	NA	No separate collection locations.	NA
		Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
5. LIABILITIES						
77	Strategic	All payables, gains and loss contingencies and other liabilities are not properly accrued, reported, or disclosed.	L	L	Executive Director, Div of Accounts & Div of Budget review these transactions handled by DAS.	Yes
78	Operations	Sufficient funds are not available to liquidate liabilities.	L	L	Central controls, DAS and Executive Director confirm that sufficient funds are available before approval of obligations.	Yes

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79		The agency missed the opportunity to take advantage of discounts by remitting payment beyond the discount date due to late processing.	L	L	Implicit office policy is that fiscal officer pays invoices as soon as possible after they arrive and alerts Executive Director to any outstanding invoices requiring additional time for research. In 2012, AP12 report shows \$7.49 lost as a result of 2 payments pd later than discount due date in 2012.	Yes
80	Reporting	A liability for claims for losses that have been incurred and not reported are not accrued or measured using the measurement criteria in accordance with GASB 10.	L	L	DAS monitors this process.	Yes
81		Accrued liabilities at fiscal year end are overstated in order to increase the level of expenditures in the next fiscal year	L	L	Executive Director and F&A review accrued liabilities at year-end prepared by DAS in accord with Year-End handbook.	Yes
82		Vendor invoices received prior to month-end are not entered into the accounting records until the following year, understating liabilities at year end.	L	L	Implicit office policy is that fiscal officer pays invoices as soon as possible after they arrive and alerts Executive Director to any outstanding invoices requiring additional time for research.	Yes
83		Invoice amounts are recorded into accounting system for wrong amounts.	L	L	Executive Director and Division of Accts (for expenses >\$2000) review all vouchers in Edison.	Yes
84		Calculations per vendor's invoice are incorrect but the total due was accrued as a liability and subsequently paid.	L	L	DAS checks vendor invoice calculations.	Yes
85		An invoice not belonging to the agency is entered into the accounting system.	L	L	Executive Director and Division of Accts (for expenses >\$2000) review vouchers prepared by DAS in Edison.	Yes
86		Vendor credit advice is never received for goods that were returned.	L	Inherent: M Residual (with controls): L	DAS monitors this process.	Yes

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87	Invoices received in numerous other locations are not sent to the processing office until after year end, understating liabilities.	NA	NA	invoices received in one location only	NA
88	Long term contract contractor's request for progress payments are accrued as liabilities even though they have yet to complete the first phase of construction.	NA	NA	no longterm construction contracts	NA
89	Utility bills for the last month of the fiscal year not yet received prior to year end are not accrued but recognized as an expense in the following year.	NA	NA	Utility bills are not received by the agency, but included as part of the FRF expenses.	NA
90	Warrants are for an amount different than supporting invoices.	L	L	Executive Director and Division of Accts (for expenses >\$2000) review vouchers prepared by DAS in Edison.	Yes
91	Compensated absences are not disclosed with the proper additions and reductions.	L	L	Central controls govern this function.	Yes
92	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
6. CAPITAL ASSETS/INVENTORY/EQUIPMENT					
93	Operations The agency is unable to adequately manage and account for their capital assets.	M	Inherent: M Residual (with controls): L	Equipment is tagged and bar-coded by ASAIII Serial numbers are verified by DAS Annual independent inventory by SSS	Yes
94	Equipment is destroyed in a fire.	H	L		Yes
95	Interdepartmental transfer of equipment is not recorded.	M	L	Only one interdepartmental transfer of equipment. Acknowledgement was received.	Yes
96	Unsafe heavy work equipment causes an on-the- job injury.	NA	NA	No heavy equipment in work area	NA

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97	Continuous maintenance needs of equipment causes numerous hours of lost productivity.	L	L	No equipment at risk of continuous maintenance needs	Yes
98	Asset cannot be located.	M	Inherent: M Residual (with controls): L	100% independent inventory is conducted annually of all assets by SSS.	Yes
99	Management failed to send a completed inventory of office contents to Risk Management.	M	L	DAS monitors deadline.	Yes
100	Agency is billed for telephone lines not utilized.	H	Inherent: M Residual (with controls): L	DAS periodically verifies that all telephone lines listed on the billings are in fact in service.	Yes
101	State agency fails to disconnect utilities at a location it has moved from and State continues to pay bills.	L	L	Agency will relocate Dec 2012, but Dept of Gen Services manages building renovation and need for utilities.	NA
102	Reporting Project expenditures are not posted to the project file which tracks project year to date expenditures.	NA	NA	No project expenditures	NA
103	Destroyed equipment/asset is not removed from accounting system.	L	L	100% independent inventory is conducted annually of all assets by SSS.	Yes
104	Capital asset is not coded correctly at time of purchase resulting in expense of costs instead of capitalization.	NA	NA	Agency makes no capital asset purchases	NA
105	Donated assets are not recorded in the capital assets or financial records.	NA	NA	Agency gets no donated assets	NA
106	Grant funded acquisitions are not tracked separately.	NA	NA	No grants	NA
107	The agency does not hold title nor a lease agreement for land recorded on the books.	NA	NA	No land owned	NA
108	Capital asset acquisitions are not charged to federal grants but the depreciation is charged against the grant.	NA	NA	No federal grants	NA

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109	Impairments in accordance with GASB 42 are not reported to the Division of Accounts.	L	L	No capital assets subject to GASB 42	Yes
110	Intangible assets are not identified as so and are expensed instead of capitalized in accordance with GASB 51.	NA	NA	No intangible assets	NA
111	Related accumulated depreciation is not removed from the records for disposals.	NA	NA	No capital assets >\$5000, so no depreciation	NA
	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
7. INFORMATION SYSTEMS/DATA PROCESSING					
112	Strategic Computer system fails to generate reliable and/or accurate data.	L	L	Central state controls	Yes
113	Operations Untested and unaccepted programs are transferred into production.	L	L	Staff sign acceptable computer use policy.	Yes
114	Unauthorized changes are made to the computer system.	L	L	Staff sign acceptable computer use policy.	Yes
115	Technical support is inadequate to support agency's needs.	M	Inherent: M Residual (with controls): L	Agency staff and OIR's Ernie Fentress provide support. HSDA shared concern about need for small agency IT support during budget hearing.	Yes
116	Fire and water damage destroy entire computer system with backup media stored at same location and as a result, all data is unrecoverable.	M	L	Backup media is stored in a separate building from building where system resides.	Yes
117	Computer system recovery after a natural disaster is significantly delayed due to outdated contact information of crucial personnel.	M	L	Central OIR controls include process to update list and regular testing.	Yes

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118		System recovery after a natural disaster is impeded as a result of information systems personnel being unaware of disaster recovery procedures and the Disaster Recovery Plans were stored in the same location as the system.	M	L	OIR tests twice a year	Yes
119		Disaster Recovery Plan was never tested and fails in the recovery of the system after hardware and system failure.	M	L	OIR tests twice a year	Yes
120	Reporting	System vendor information is unrecoverable after system failure.	M	L	OIR responsible for this	Yes
121		Computer interfaces between general ledger systems do not operate to effect complete and accurate processing.	M	L	Central state controls	Yes
122		Rejected transactions are not identified and remedied resulting in unrecorded transactions.	M	L	No rejected transactions have occurred	Yes
123		Control tables are not updated with up to date tax rates.	L	L	Central state controls	Yes
124		Documents are input into system more than once resulting in duplicate transactions.	L	L	Policy is to pay only from originals and avoid duplicate payments by reviewing payment file. Edison also has system controls to ID duplicates.	Yes
125		Input amounts do not agree with source documentation.	L	L	Executive Director and Division of Accts (for expenses >\$2000) review transactions prepared by DAS in Edison.	Yes
		Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
8. PERSONNEL/EMPLOYEE COMPENSATION						
126	Strategic	Scheduled programs failed to run resulting in incomplete transaction processing and posting to accounting records.	M	L	Central Payroll controls prevent this	Yes

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127	Operations	Poor management of personnel result in low morale and high turnover.	M	L	HSDA turnover historically very low	Yes
128		Payroll operations fail to provide for proper accounting and distribution of personnel pay.	M	L	Central Payroll controls prevent this	Yes
129		Employees perceive limited control over their career development, causing higher turnover.	M	L	HSDA turnover historically very low	Yes
130		An employee is terminated for gross misconduct but receives payment for accrued leave anyway.	L	L	Central Payroll controls prevent this	Yes
131		An employee continues to receive a salary payment after the employee’s employment with the state has ended.	L	L	Central Payroll controls prevent this	Yes
132		An employee is allowed to received a payroll differential after the reason for the differential has ended.	L	L	No differentials	Yes
133		An employee is given a salary increase that was not authorized.	L	L	Central controls, including preferred service for 6 of 9 employees, prevent this.	Yes
134		An employee is paid administrative leave without authorization.	L	L	Central controls prevent payment without authorization.	Yes
135		An employee is paid compensatory time or overtime without prior approval.	L	L	Paid comp or overtime rarely used. Prior approval by supervisor and Exec Director required.	Yes
136		Employee dissatisfaction with job variety results in rote performance, higher errors in key processes and high turnover.	L	L	No lack of job variety in a small agency	Yes
137		Paychecks are distributed before the end of the payroll period.	M	L	Central Payroll controls prevent this	Yes
138	Reporting	Employees feel unrecognized, resulting in reduced focus on tasks and higher error rates.	M	L	Small agency means all employees known and recognized.	Yes

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139	Payroll deduction accounts in general ledger does not agree to subsidiary accounts balance.	NA	NA	No subsidiary accounts	NA
140	Administrative leave accumulated and approved as discretionary leave is not accrued as part of the compensated absences liability.	L	L	Agency does not utilize administrative leave; compensated absences liability is calculated centrally, not by HSDA	Yes
	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
9. FINANCIAL REPORTING					
141	Strategic Processed transactions and procedures fail to timely provide data to compile financial statements that are accurate and reliable.	NA	NA	Financial reporting for agency is done centrally through state Comprehensive Annual Financial Report (CAFR)	NA
142	Operations The necessity of numerous offline adjustments causes the financial statements to be completed beyond a reasonable timeframe.	NA	NA	Financial reporting for agency is done centrally through CAFR	NA
143	Reporting The agency fails to properly adopt new accounting pronouncements due to uninformed and untrained personnel.	NA	NA	Financial reporting for agency is done centrally through CAFR	NA
144	Fund balance is reserved and Net Assets are not restricted in accordance with statutory requirements.	NA	NA	Financial reporting for agency is done centrally through CAFR	NA
145	Financial statements do not articulate.	NA	NA	Financial reporting for agency is done centrally through CAFR	NA
146	Agency fails to identify all of their reserve and restriction requirements.	NA	NA	Financial reporting for agency is done centrally through CAFR	NA
	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
10. ACCOUNTS RECEIVABLE					

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147	Strategic	Recording and collection efforts are inadequate.	L	Inherent: M Residual (with controls): L	Document copy costs, electronic recordings of meetings and reimbursement of ALJ charges are the only accounts receivables. Recording is built into the accounts receivable process. Collection efforts are administered by DAS and GC and monitored by ED.	Yes
148	Operations	Poor record management of receivables results in loss revenues and misstated receivables.	M	L	Document copy costs , electronic recordings of meetings and reimbursement of ALJ charges are the only accounts receivables. Recording is built into the accounts receivable process.	Yes
149		Collections are not applied to the correct customer account.	L	L	Document copy costs are only accounts receivable; accurate recording and collection is built into the process.	Yes
150		Agency fails to follow up on interfund receivable for federal expenditures resulting in loss of federal funds due to time lapse.	NA	NA	No federal grants	NA
151		Lack of collection efforts of delinquent receivables results in more write offs and loss of revenue.	L	L	Delinquent receivables get follow-up call and /or letter from DAS or GC. No writeoffs.	Yes
152	Reporting	Cash collections unable to be identified with a subsidiary account.	NA	NA	No subsidiary accounts	NA
153		Prior year's receivable reversal of a significant account is written off without adjusting the reversal.	L	L	No reversals	Yes
154		A payment is recorded in a customer account but not deposited.	NA	NA	No subsidiary customer accounts	NA
155		Receivables are reduced or written off without proper authorization.	L	L	No write-offs	Yes
156		Interest and fees are not calculated properly.	M	Inherent: M Residual (with controls): L	CON fees are calculated and rechecked by a multi-level process.	Yes

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157	Collections from separate collection site is not recorded into system due to untimely receipt by processing location.	NA	NA	No separate collection sites	NA
158	The related estimated uncollectible account is not debited for a write off.	L	L	No uncollectibles	Yes
	Additional Risks and Exposures	Impact	Likelihood	Additional Control Activities	Control Operating Effectively?
11. INVESTMENTS					
159	Strategic Receivable account is erroneously credited for more than funds received.	NA	NA	Agency does not manage financial investmests.	NA
160	Investment activity ensures solid safety, liquidity, accurate financial reporting and yield.	NA	NA	Agency does not manage financial investmests.	NA
161	Operations Financial statements fail to portray actual investment balances and activity.	NA	NA	Agency does not manage financial investmests.	NA
162	The U.S. interest rate changes by 50, 100 and 200 basis points (BPS) in next 12	NA	NA	Agency does not manage financial investmests.	NA
163	Counter party in interest rate swap agreement exercises termination rights resulting in an adverse effect on the agency.	NA	NA	Agency does not manage financial investmests.	NA
164	Investment personnel are unaware of future cash flow needs of the agency.	NA	NA	Agency does not manage financial investmests.	NA
165	Income from investments are not credited to agency's broker/trustee account immediately when received.	NA	NA	Agency does not manage financial investmests.	NA
166	Reporting Foreign currency in which investments are held are on a decline in relation to the U.S. dollar.	NA	NA	Agency does not manage financial investmests.	NA
167	Stock investments are reported at cost.	NA	NA	Agency does not manage financial investmests.	NA

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168	Investment income is not posted by trustee/broker to agency's account statement which is the source documentation for entering investment income into accounting system.	NA	NA	Agency does not manage financial investmests.	NA
169	Quoted market prices are not available for valuing derivatives resulting in the reliance on significant assumptions.	NA	NA	Agency does not manage financial investmests.	NA
170	Investments are incorrectly valued on the financial statements due to lack of qualified accounting personnel.	NA	NA	Agency does not manage financial investmests.	NA
171	Broker/Trustee miscalculates investment income.	NA	NA	Agency does not manage financial investmests.	NA
172	Reporting on derivative use is not in accordance with GAAP.	NA	NA	Agency does not manage financial investmests.	NA

SECTION VI CONTROL ACTIVITIES				
Part 3 Fraud: Health Services and Development Agency				
Instructions				
1. Address the following risks and any identified agency-specific risks due to fraud.				
2. For each risk, estimate the potential impact to the agency assuming the risk occurs. Use High, Medium or Small.				
3. For each risk, assess the likelihood of the risk occurring. Use Probably, Reasonably Possible or Remote. Alternatively, use High, Medium or Low.				
4. For each risk with large or moderate impact and probable (high) or reasonably possible (medium) likelihood of occurrence, list the control activity to mitigate the risk to an acceptable level. If no control activity is present to manage the risk, a corrective action plan should be completed and attached. Any N/As should be explained.				
Risk Category 1 - Fraudulent Financial Reporting				
				Control Operating Effectively?
Inherent Risk	Impact	Likelihood	Control Activity	
1 Use of grant funds for other than specified purpose resulting in revenue not truly having been earned and therefore, overstating revenues.	NA	NA	No federal grants	NA
2 Deferring earned revenue to avoid funds reverting to the General Fund.	NA	NA	No deferred revenues	NA
3 Overestimating liabilities to retain residual funding at the end of year.	M	L	Executive Director and F&A review accrued liabilities at year-end prepared by DAS in accord with Year-End guidelines.	Yes
4 Overestimating federal receivables at year end in order to meet reversion target.	NA	NA	No federal grants	NA

HSDA Worksheet 3

	Impact	Likelihood		Control Operating Effectively?
Inherent Risk			Control Activity	
5 Nondisclosure of pending litigation due to avoidance of public exposure.	L	L	Attorney General represents agency, so nondisclosure not an option.	Yes
6 Failure to write down the fair market value of an investment to avoid recording a loss and reflecting poor investment management.	NA	NA	No investment function	NA
7 Delay in the proper accumulation of expenditures of a project to avoid reporting the costs in excess of the amount originally expected or approved to construct an asset.	NA	NA	No project accounting	NA
8 Failure to disclose actual risks investments are susceptible to in order to avoid exhibiting management's negligence in ensuring proper collateralization of investments and deposits.	NA	NA	No investment function	NA
9 Establishing reserves or overstating reserves without proper justification.	NA	NA	NA	NA
10 Improper capitalization of expenses, i.e., leases.	NA	NA	No leases	NA
Additional Inherent Risks:	Impact	Likelihood	Additional Control Activity	Control Operating Effectively?
Fraud Risk Category 2 - Misappropriation of Assets				

HSDA Worksheet 3

				Control Operating Effectively?
	Impact	Likelihood		
Inherent Risk			Control Activity	
11 Theft or loss of assets, particularly "sensitive equipment" such as laptops or other computer equipment.	M	M inherent/ L residual	Annual inventory listed is obtained from Edison query. DAS verifies equipment location and notes condition. State tags, barcodes and serial numbers are checked to ensure that they are correct and visible. Surplus items are verified for deletion from inventory. Annual inventory is performed by Shared Services Solutions. Listing is returned to the agency.	Yes
12 A requisition for goods or services is defined so narrowly that it appears that only one supplier is available.	L	L	Limited requisitions; central controls review any agency requisitions.	Yes
13 Unapproved removal or disposal of assets e.g. because of alleged damage.	L	L	DAS follows DGS policy under supervision of Executive Director.	Yes
14 Loss of control over assets because asset inventory not maintained.	M	M inherent/ L residual	Inventory is tagged and bar-coded by ASA III. Serial numbers are verified by DAS. Annual inventory by SSS in Edison.	Yes
15 Inability to explain and/or itemize expenditure on assets.	M	M inherent/ L residual	Appropriate, complete expenditure classification and explanation on vouchers to facilitate expenditure analysis is required.	Yes
16 Theft of physical resources such as stationery, tools, etc.	L	M inherent/ L residual	Physical safeguards include cabinet locks for certain items, agency door locks that prevent even cleaning personnel from entering afterhours, and standard building security.	Yes

	Inherent Risk	Impact	Likelihood	Control Activity	Control Operating Effectively?
17	Inappropriate use of organizational phones, photocopiers, portable and attractive items.	L	M inherent/ L residual	Executive Director and management enforce this understood policy.	Yes
18	Unauthorized disclosure of personal or confidential information.	L	M inherent/ L residual	Physical safeguards include cabinet locks for employee health information, two sets of locked doors that prevent even cleaning personnel from entering afterhours, and standard building security. Administrative staff are trained on proper disclosure requirements.	Yes
19	System is manipulated resulting in payments to non existent suppliers.	L	M inherent/ L residual	Personnel with vendor add/change authorization in system is not authorized to perform any payable functions.	Yes
20	False travel claims submitted.	L	M inherent/ L residual	Original receipts and original signatures are required for travel claims. Attendance at agency mtgs for which reimbursement is claimed is verified. Travel claims are approved by DAS and Executive Director before being processed for payment through Edison.	Yes
21	Theft or "borrowing" of petty cash.	NA	NA	No petty cash	NA
22	Submission of bogus petty cash claims.	NA	NA	No petty cash	NA

HSDA Worksheet 3

				Control Operating Effectively?
	Impact	Likelihood		
Inherent Risk			Control Activity	
23 Receipts not issued for money received.	M	M inherent/ L residual	AA1 records checks in iNovah system which prints a receipt. The check is then recorded in the Log Book with iNovah receipt number and a batch number. The AA1 makes 4 copies of the check which are distributed in the following manner: 2 copies to the CON file; 1 copy to the HP; 1 copy for the applicant (which is either given to them at the time the fee is paid in person or is mailed to them). Receipt is also in CON file reviewed by HSD Examiner and ASA3.	Yes
24 Under-banking or failure to bank cash receipts.	L	L	No cash receipts	Yes
25 Theft of cash following permanent closure or relocation of unit.	L	L	No cash, only checks	Yes
26 Unauthorized access to sensitive data.	M	M	Agency working with General Services to ensure that move to Frost Bldg (temporary location) will provide adequate security measures. Agency will be in open floor plan with another state agency. Legal files will be kept in GC office behind locked door.	Yes
27 Use of fuel card for private use.	L	L	Dept of Gen Svcs runs computer checks for multiple fuel purchases and overcapacity fuel purchases. Agency has never received any exceptions and rarely uses motor vehicle.	Yes
28 An incidence of fraud has been identified, but processes have not been put in place to reduce the risk of repetition.	H	L	Incidents of fraud are reported to the Comptroller's office and audit committee. No fraud has occurred.	Yes
29 Falsification of travel claim mileage.	L	M inherent/ L residual	Travel claims are approved by DAS and Executive Director before being processed for payment.	Yes

				Control	
				Operating	
				Effectively?	
	Inherent Risk	Impact	Likelihood	Control Activity	
30	False invoices accepted resulting in payment for goods not received.	L	M inherent/ L residual	AA1 verifies receipt of items and gives to DAS for Invoice reconciliation.	Yes
31	Theft of sensitive information from State vehicles.	L	M inherent/ L residual	Rare use of state vehicles.	Yes
32	Theft of State owned vehicles from parking areas or while garaged at home.	H	L	Rare use of state vehicles	Yes
33	Theft or substitution of accessories or tools.	L	M	Agency working with General Services to ensure that move to Frost Bldg (temporary location) will provide adequate security measures. Agency will be in open floor plan with another state agency.	Yes
34	Payroll payments above approved entitlements.	M	L	Payroll subject to central F&A, DOHR controls	Yes
35	Fictitious employee created by payroll clerk.	M	L	Central controls prevent appointment of anyone not approved by appointing authority and hired through official procedures.	Yes

	Inherent Risk	Impact	Likelihood	Control Activity	Control Operating Effectively?
36	Overpayments of employees.	M	L	Central controls prevent payment beyond what is allowed for particular positions.	Yes
37	Fraudulent recording of attendance/time.	M	M inherent/ L residual	Time sheets are reviewed for accuracy; Supervisors approve leave, and submit to DAS for approving in Edison.	Yes
38	Leave taken and reimbursed for exceeds entitlements.	L	L	System does not allow leave taken to exceed leave accrued.	Yes
39	Staff claiming reimbursement for simultaneous hours in different locations.	L	L	Central controls prevent this.	Yes
40	Timesheets altered to increase hours, allowances.	M	M inherent/ L residual	Time sheets are reviewed for accuracy and integrity; Supervisors approve leave and submit to DAS for approval in Edison.	Yes
41	Conducting personal business during work hours.	L	M inherent/ L residual	Managers ensure staff are aware of and follow policies on issues of departmental resources, including time.	Yes
42	Fraudulent worker's compensation claims.	M	L	Opportunity for injury is low. Claims investigated by outside firm.	Yes

				Control	
				Operating	
				Effectively?	
	Inherent Risk	Impact	Likelihood	Control Activity	
43	Fraud committed through negligence as a result of manager/supervisor not checking claims for payments.	M	L	Supervisor and fiscal approval required in Edison.	Yes
44	Looting following a natural disaster resulting in loss of data.	L	M	Agency working with General Services to ensure that move to Frost Bldg (temporary location) will provide adequate security measures.	Yes
45	Inadequate application controls resulting in unauthorized staff accessing systems.	H	M inherent/ L residual	No special applications except 3270 and Edison. Passwords are kept locked up.	Yes
46	Unauthorized release of user name and/or password.	H	M inherent/ L residual	Each person has their own password and user id and are instructed to keep private and lock workstations when step away	Yes
47	Excessive internet browsing.	L	M inherent/ L residual	Personnel are required to sign computer usage policy acknowledgement form. In small agency, this would be difficult to hide.	Yes
48	Installation of illegal software on State owned computers.	L	M inherent/ L residual	Personnel are required to sign computer usage policy acknowledgement form. In small agency, this would be difficult to hide.	Yes
49	Downloading of inappropriate material from internet.	M	M inherent/ L residual	State Filter prevents most access. Personnel are required to sign computer usage policy acknowledgement form. In small agency, this would be difficult to hide.	Yes

	Inherent Risk	Impact	Likelihood	Control Activity	Control Operating Effectively?
50	Theft of goods or unauthorized disposal of goods.	M	M	Agency working with General Services to ensure that move to Frost Bldg (temporary location) will provide adequate security measures	Yes
51	Vendor address is changed in payable system in order to intercept and steal check/warrant.	M	L	Vendor information cannot be changed without prior approval of management, supporting documentation and can only be performed by Accounts staff in separate agency.	Yes
52	Non-substantiated claims for reimbursement.	L	M inherent/ L residual	Original documentation required for support of claims.	Yes
53	Requests for Proposals integrity compromised as a result of collusion between a contractor and purchase contact.	L	L	No RFPs	Yes
54	Unauthorized personal use of State vehicle.	L	M inherent/ L residual	Rare use of state vehicles.	Yes
55	Personal items are purchased using agency payment/credit card.	L	M inherent/ L residual	DAS has only access to Pcard. Purchases are reviewed by director and F&A acts as agency Pcard coordinator	Yes

HSDA Worksheet 3

				Control Operating Effectively?
	Impact	Likelihood		
Inherent Risk			Control Activity	
56 Employee who is embezzling funds makes a transfer of funds from a bank account (2) in one bank to a bank account (1) where the funds were originally stolen from in another bank near the end of the period. The withdrawal from the second bank account is not recorded and due to timing, does not appear on the year end bank statement and the embezzlement is not detected	M	L	Agency has only one bank account.	Yes
57 Accounts receivable clerk steals customer receipts for account payment and covers with another customer's later payment and so on and at the end of the year, writes off the receivable	M	L	No write-offs	Yes
Additional Inherent Risks:	Impact	Likelihood	Additional Control Activity	
58 ASAIH compares receipts w/deposit slip prior to deposit instead of with the deposit ticket from the bank after deposit is made and person making deposit misappropriates checks instead of making deposit.	M	M inherent/ L residual	Procedures revised in 2008 and updated in 2010 include ASA comparison of receipts, CDs and deposit tickets both before and after bank deposit. SSS conducts independent reconciliation of receipts, CDs, bank tickets and state accounting entries.	Yes
59 Inadequate segregation of duties in deposits process is fraud risk.	M	M	Written procedures revised in 2008 and updated in 2010 include segregation of duties and back-up segregations with documentation by different roles during the process. SSS conducts independent reconciliation of receipts, CDs, deposit tickets and state accounting records as additional compensating control	Yes
Fraud Risk Category 3 - Corruption				

					Control Operating Effectively?
	Inherent Risk	Impact	Likelihood	Control Activity	
60	Collusive activity between procurement officer and supplier resulting in invoice higher than approved prices.	L	L	DAS follows procurement policy for competitive bidding. Executive Director reviews and approves invoices and questions any anomalies.	Yes
61	Collusive practices resulting in the purchasing process not being sufficiently competitive.	L	L	Staff are required to sign conflict of interest statement. All contracts over a statewide-set certain dollar amounts are required to have at least three bids.	yes
62	Payments for services continue to subrecipients that do not comply with reporting requirements due to collusion.	NA	NA	No grant functions	NA
63	Services are purchased from an organization/contractor with a previous fraud history or general record of non-compliance with reporting requirement.	L	L	DAS follows procurement policy for eligible vendors.	Yes
64	Staff involved in decision making or monitoring may have a personal or pecuniary interest in the contract.	M	M inherent/ L residual	Agency staff review and sign the conflict of interest policy annually. Staff don't have input in decision-making for CON. Review of CON applications are handled by staff that don't have relations with applicants.	Yes
65	Unauthorized staff appointments.	L	L	Central HR controls prevent this. Payroll reviews would catch it.	Yes
66	Overtime worked without authorization.	NA	NA	Paid overtime is rarely authorized.	NA

HSDA Worksheet 3

				Control Operating Effectively?
	Impact	Likelihood		
Inherent Risk			Control Activity	
67 Application for employment using false personal details.	M	L	Reference checking is part of hiring process.	Yes
68 Appointments made on other than merit.	M	M inherent/ L residual	Original documentation required to be maintained for verification of appointment of staff. Agency adheres to DOHR rules. 7 of 10 positions are preferred service, a system which uses registers and merit-based selection criteria for hiring.	Yes
69 Kickbacks or spotting fees paid to staff from contractors, suppliers and/or brokers.	M	M inherent/ L residual	Comprehensive Conflict of Interest procedures are in place in law and agency rules.	Yes
70 Splitting orders to avoid being subject to the bid process.	L	L	DAS follows state purchasing rules under supervision of Executive Director. General Services runs possible split invoice reports and investigates exceptions.	Yes
Additional Inherent Risks:	Impact	Likelihood	Additional Control Activity	Control Operating Effectively?
71 Certificate of Need Applicants provide false information.	H	M inherent/ L residual	Applicant provides affidavit attesting to truthfulness of all information. Revocation of Certificates is an option if granted based on false information provided by applicant.	Yes
72 Collusive practices resulting in improper granting or withholding of certificates of need.	H	M inherent/ L residual	Comprehensive Conflict of Interest procedures are in place in law and agency rules	Yes
73 Flaws in data used as part of CON applications.	H	L	Reviewing agency is responsible for verification and analysis. Direct communication between HSDA staff and reviewing Agency staff.	Yes

HSDA Worksheet 3

	Impact	Likelihood		Control Operating Effectively?
Inherent Risk			Control Activity	
Inadequate segregation of duties over the procurement function is fraud risk.	M	M	DAS submits purchasing needs in writing (via email) to Shared Services Solutions (SSS). SSS staff determines proper procurement procedure and makes purchase. AA1 verifies receipt of goods and sends invoice to DAS for review, coding & approval. HSDA scans invoice and sends to SSS for voucher entry. ED and DAS are notified of voucher via email and then approves payment voucher after review in Edison.	Yes

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**STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY**

500 Deaderick Street
Suite 850
Nashville, Tennessee 37243
741-2364

December 12, 2012

The Honorable Mark Emkes, Commissioner
Department of Finance and Administration
State Capitol
Nashville, TN 37243

And

The Honorable Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243

Dear Sirs:

This annual report addresses the agency-wide risk management and internal control requirements of the TCA Section 9-18-101, known as the *Tennessee Financial Integrity Act*, as amended. In order to assess the effectiveness of our internal control system and of individually significant controls, we conducted an evaluation in accordance with the guidance set forth under TCA Section 9-18-103. We understand that this guidance was developed using the established comprehensive internal control frameworks entitled *Internal Control—Integrated Framework* (1994) and *Enterprise Risk Management—Integrated Framework* (2004), issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and published by the American Institute of Certified Public Accountants, and have referred to these frameworks as necessary throughout the evaluation.

The objective of the Health Services and Development Agency's annual risk management and internal controls assessment is to provide reasonable assurance of the following:

- Accountability for meeting program objectives;
- Promoting operational efficiency and effectiveness;
- Improving reliability of financial statements;
- Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- Reducing the risk of financial or other asset losses due to fraud, waste, and abuse. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

The concept of reasonable assurance recognizes that the costs of internal controls should not exceed the benefits derived from those controls. Reasonable assurance is a high but not an absolute level of assurance. In the course of any review, estimates and judgments are required to assess the expected benefits and related costs of control policies and procedures. Errors or fraud may occur and not be detected due to inherent limitations in any system of risk management and internal control, including those limitations resulting from resource constraints, legislative restrictions and other factors. Risk assessment allows the

agency to consider the extent to which potential events have an impact on achievement of objectives and to mitigate the risk of events that could have a negative impact.

As head of this agency, I certify that we have performed an entity-wide risk assessment and have fully complied with the requirements specified in TCA 9-18-102. To reduce the effect of unacceptable risks, a system of internal control has been implemented and tested for operating effectiveness. I acknowledge responsibility for establishing, implementing and maintaining an adequate internal control system to prevent and detect fraud, waste, and abuse and for performing this assessment of the operating effectiveness of the department's risk management and internal controls. The results of this assessment have given me reasonable assurance that the Health Services and Development Agency's internal controls in effect on a June 30 fiscal year ending basis, adequately safeguard assets, and when taken as a whole provide reasonable assurance of the proper recording of financial transactions; compliance with applicable laws, regulations, rules, contracts and grant agreements; and the achievement of operational objectives, subject to the limitations described in the previous paragraph. As head of this agency, I acknowledge responsibility for maintaining the internal control system of this agency.

The attached documents reflect the results of our agency-wide risk assessment and the controls that are intended to mitigate the identified risks.

Sincerely,

Melanie Hill
Executive Director

Attachments

Xc: Fiscal Review Committee

Report Checklist

HEALTH SERVICES AND DEVELOPMENT AGENCY

STAGE 1—INITIAL ASSESSMENT

 Yes **Step 1—Internal Environment**

These steps are to be performed to give management a big picture of or to “get-to-know” their organization in order to direct them to their agency’s risks, strategies and objectives.

Has management addressed the following elements of the Internal Environment?

- Risk Management Philosophy
- Risk Appetite
- Integrity and Ethical Values
- Commitment to Competence
- Organizational Structure
- Assignment of Authority and Responsibility
- Human Resource Standards

 Yes **Step 2— Objective Setting**

The goal in step 2 is to identify (1) why the agency exists, (2) what needs to be done and (3) what activities are necessary to achieve its objectives.

Has management addressed the following categories of objectives with respect to its agency?

Strategic	Operational	Reporting	Compliance
------------------	--------------------	------------------	-------------------

Has management identified the business processes and activities its agency participates in to meet its objective?

STAGE 2—RISK ASSESSMENT

 Yes **Step 3—Event Identification**

In Step 3, the goal is to first identify events and then the risks that are produced as a result of those events that would impede the agency in meeting its objectives/performing the activities that are performed to meet those objectives.

- Has management identified events that would impede in the agency meeting its objectives
- Has management listed risks generated from those events?

Yes **Step 4—Likelihood/Impact**

The goal here is to assess and document management's assessment on the likelihood and impact of a risk.

- For each risk identified in Step 3 and those identified in the worksheet template in Section VI

Yes **Step 5—Control Activities and Risk Response**

In Step 5, the agency will identify its control activities. This is where the internal control evaluation takes place. These control activities are to serve as risk responses as well as to ensure that risk responses are carried out.

- For all risks that are high or medium impact and probable or reasonably possibly to occur, has the agency addressed control activities/actions to mitigate those risks?
- Has management tested controls for operating effectiveness?

Yes **Step 6—Final Evaluation**

- Has the agency evaluated its residual risks in the aggregate to determine if total residual risks are within the agency's risk appetite?

STAGE 3—REPORTING

Yes **Step 7—Reporting Package**

- Has management completed the Management Report?
- Has management included this checklist with the report?
- Has management included documentation of their agency-wide risk assessment and internal control evaluation?

AGENDA
HEALTH SERVICES AND DEVELOPMENT AGENCY
AUDIT COMMITTEE MEETING

Legislative Plaza, Room 12
Sixth Avenue North & Union Street
Nashville, TN

Wednesday, December 12, 2012

Audit Committee Meeting will begin at the conclusion of the regularly scheduled HSDA meeting.

- I. CALL TO ORDER
 - A. Roll call vote to establish quorum
- II. CURRENT REPORTS
 - A. Approval of April 2012 Minutes
- III. AUDIT COMMITTEE CHARTER REVIEW
- IV. RISK ASSESSMENT, INTERNAL CONTROLS PROCESS
 - A. Financial Integrity Act Review
 - B. Report on Deposit Timeliness
- V. STANDARDS OF CONDUCT
 - A. Conflict of Interest Policy
 - B. Code of Conduct
 - C. Fraud Reporting Requirements
- VI. OTHER BUSINESS
 - A. Sunset Audit Update
- VII. ADJOURNMENT

**HEALTH SERVICES AND DEVELOPMENT AGENCY
AUDIT COMMITTEE MINUTES
APRIL 25, 2012**

AUDIT COMMITTEE MEMBERS PRESENT

Burns, Charlotte, Chair
Johnson, D. Lynn
Jordan, Lisa, designee for the Commissioner of Commerce and Insurance
Lammert, Gregory
Southwick, William

AGENCY MEMBERS PRESENT

Koella, Carl, III, Chair
Haik, Barrett, M.D.
Wright, James
Weaver, Faye, designee for the Comptroller of the Treasury

AGENCY MEMBERS ABSENT

Doolittle, Robert S.
Gaither, Keith, designee for the TennCare Director

STAFF PRESENT

Hill, Melanie, Executive Director
Bobbitt, Melissa, Administrative Services Assistant III
Christoffersen, Jim, General Counsel
Farber, Mark, Assistant Executive Director
Finchum, Rhonda, Director, Administrative Services

AUDIT STAFF PRESENT

Arthur Hayes, Director, Division of Audit, State Comptroller's Office
Diana Jones, Audit Manager, Division of Audit, State Comptroller's Office
Lisa Williams, Auditor, Division of Audit, State Comptroller's Office

PURPOSE-Draft Sunset Audit Discussion/Response

The Health Services & Development Agency's Audit Committee met immediately after the conclusion of the regular HSDA monthly meeting in a confidential, nonpublic executive session, pursuant to T.C.A. 4-35-108(b) (3), in which the draft of the Comptroller's Performance Audit and the Health Services and Development Agency's response (to the draft audit) were discussed.

Charlotte Burns, Chair, called the meeting to order at 11:20 am in the Main Auditorium's side room, AT& T Tower, Nashville, Tennessee.

Ms. Hill announced that Mr. Gaither and Ms. Doolittle were absent. Present in representation of the Comptroller's Office were Arthur Hayes, Director, Division of State Audit; Diana Jones, Audit Manager; and Lisa Williams.

State Audit Staff and Agency Members and staff discussed the draft audit and the Agency's response.

ADJOURNMENT

There being no further business, the meeting adjourned.

Melanie M. Hill, Executive Director

MMH/mab

SECTION VI CONTROL ACTIVITIES

Part 2 Compliance: Health Services & Development Agency

Objective: To identify mitigating controls that address the agency's risk of noncompliance with laws, rules, regulations, contracts, and grant agreements and to identify exposure for noncompliance. Determine the effectiveness of those control activities.

Instructions

1. Address the following risks and any identified agency-specific risks to the achievement of compliance with the related Law, Rule or Regulation.
2. For each risk, estimate the potential impact on compliance assuming the risk occurs. Use High, Medium or Small.
3. For each risk, assess the likelihood of the risk occurring. Use Probably, Reasonably Possible or Remote. Alternatively, use High, Medium or Low.
4. For each risk with large or moderate impact and probable (high) or reasonably possible (medium) likelihood of occurrence, list the control activity to mitigate the risk to an acceptable level. If no control activity is present to manage the risk, a corrective action plan should be completed and attached. Any N/As should be explained.

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
FEDERAL PROGRAMS					
<i>OMB Circular A-133</i>					
Activities Allowed/Allowable Costs	Costs charged to a federal program are not allowable under program regulations.	NA	NA	Agency administers no federal grants	NA
Cash Management	The timing of federal cash draws are not in compliance with the Treasury-state agreement.	NA	NA	Agency administers no federal grants	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
	Program income is not disbursed before requesting additional federal cash draws.	NA	NA	Agency administers no federal grants	NA
Davis-Bacon Act	Contractors and subcontractors are not informed of the requirements to comply with the Davis-Bacon Act.	NA	NA	Agency administers no federal grants	NA
	Contractors and subcontractors under federal programs do not submit the required weekly certified payrolls.	NA	NA	Agency administers no federal grants	NA
Eligibility	Recipients of federal grant funds do not meet eligibility requirements for the federal program.	NA	NA	Agency administers no federal grants	NA
	Inadequate documentation is obtained from the federal program recipient to verify eligibility.	NA	NA	Agency administers no federal grants	NA
	Benefits are not discontinued when the period of eligibility has expired.	NA	NA	Agency administers no federal grants	NA
Equipment and Real Property Mgmt.	Use, management, and disposal of equipment and property acquired under a Federal grant is not in accordance with State laws and procedures.	NA	NA	Agency administers no federal grants	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
	Disposal of equipment acquired with federal dollars is made without the prior consent of the federal awarding agency.	NA	NA	Agency administers no federal grants	NA
Matching, Level of Effort, Earmarking	Matching contributions for federal programs are funded with federal dollars.	NA	NA	Agency administers no federal grants	NA
	Minimum or maximum limits for specified purposes are not met.	NA	NA	Agency administers no federal grants	NA
Period of Availability	Federal funds are not expended within time frames specified in the federal award.	NA	NA	Agency administers no federal grants	NA
	The agency fails to seek reimbursement during the specified funding period.	NA	NA	Agency administers no federal grants	NA
Procurement, Suspension/Debarment	The department does not use the same State policies and procedures used for procurements from non-Federal funds.	NA	NA	Agency administers no federal grants	NA
	Funds are disbursed to suspended or debarred parties.	NA	NA	Agency administers no federal grants	NA
Program Income	Program income is not used according to requirements of the grant award.	NA	NA	Agency administers no federal grants	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
Relocation Assistance and Real Property Acquisition	Persons displaced by federally-assisted programs from their homes, businesses, or farms are not provided uniform and equitable treatment under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended.	NA	NA	Agency administers no federal grants	NA
Reporting	All required federal reports are not submitted accurately and timely to the federal awarding agency.	NA	NA	Agency administers no federal grants	NA
	Data presented in financial reports do not agree with accounting records.	NA	NA	Agency administers no federal grants	NA
Subrecipient Monitoring	Subrecipients of federal awards are not monitored in accordance with the requirements of A-133.	NA	NA	Agency administers no federal grants	NA
	Subrecipients are not informed of all grant requirements and provisions.	NA	NA	Agency administers no federal grants	NA
	The agency fails to ensure that corrective action is taken on deficiencies noted during monitoring.	NA	NA	Agency administers no federal grants	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
Special Tests and Provisions	Noncompliance with the specific requirements that are unique to each Federal program and are found in the laws, regulations, compliance supplement, and the provisions of contract or grant agreements pertaining to the program.	NA	NA	Agency administers no federal grants	NA
MISC. FEDERAL LAWS					
<i>Title VI of the Civil Rights Act of 1964</i>	The agency does not have a civil rights policy prohibiting discrimination.	NA	NA	Attorney General's opinion confirms that this is not applicable since agency administers no federal funds.	NA
	Information about the agency's civil rights and affirmative action plan are not communicated or displayed through posters, brochures, etc.	NA	NA	Attorney General's opinion confirms that this is not applicable since agency administers no federal funds.	NA
	The agency does not have published grievance procedures.	NA	NA	Attorney General's opinion confirms that this is not applicable since agency administers no federal funds.	NA
	Grievance procedures are not distributed to employees.	NA	NA	Attorney General's opinion confirms that this is not applicable since agency administers no federal funds.	NA
	There is not a designated compliance officer to handle complaints received.	NA	NA	Attorney General's opinion confirms that this is not applicable since agency administers no federal funds.	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
<i>Drug-Free Workplace Act</i>	The agency does not have and enforce a drug-free workplace policy.	NA	NA	No federal grants	NA
	There is not a tracking system in place to ensure that all employees have been issued and signed the policy.	NA	NA	No federal grants	NA
	There is not a designated compliance officer.	NA	NA	No federal grants	NA
<i>Health Insurance Portability and Accountability Act of 1996 . (HIPAA)</i>	Employees are not made aware of their responsibilities under HIPAA.	L	L	Job responsibilities for DAS includes awareness of HIPAA responsibilities.	Yes
	Unauthorized access is gained to records covered by HIPAA.	L	L	Agency human resource records kept under lock and key with restricted access.	Yes
	Improper disclosure of records covered by HIPAA is made.	M	L	Job responsibilities for DAS officer includes awareness of HIPAA responsibilities.	Yes
STATE LAWS AND RULES					
<i>F&A Policy 1, Automatic Deposit of Paychecks for New Employees</i>	Procedures are not in place to ensure that new employees are enrolled in direct deposit.	L	L	A standard form is provided to new employees.	Yes

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 2, <i>Recovery of Monies, Refunds, Disallowances, and Questioned Costs</i>	Recoveries, refunds, disallowances, or return of questioned costs are not made in accordance with the provisions of Policy 2.	NA	NA	Agency administers no federal grants	NA
F&A Policy 3, <i>Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients Federal and State Grant Monies</i>	The department's cost allocation plan is not developed in accordance with the provisions of Policy 3.	NA	NA	Agency administers no federal grants	NA
F&A Policy 4, <i>Recognition Versus Reduction of Amounts - Revenue, Expenditure Related Accounts</i>	Revenues and expenditures are not recorded in accordance with the provisions of Policy 4.	L	L	DAS monitors this; improper transactions are rejected by Division of Accounts.	Yes
F&A Policy 5, <i>Application of GASB Statement 3 - Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements - and Application of GASB Statement 40 - Deposit and Investment Risks, An Amendment of Statement 3</i>	Financial statements are not prepared in accordance with GASB Statements 3 and 40, as outlined in Policy 5.	NA	NA	Repealed 5/12	NA
F&A Policy 6, <i>Payments Under Contract After Closing or Purging of Contract From STARS</i>	Late contract payments are made without the proper approvals outlined in Policy 6.	NA	NA	Repealed 8/2011	NA
F&A Policy 7, <i>Petty Cash and Departmental Bank Accounts</i>	Unauthorized bank accounts or petty cash accounts are established.	L	L	No petty cash accounts	Yes
	Bank account reconciliations are not performed timely.	NA	NA	NA	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 8, <i>Comprehensive State Travel Regulations</i>	An employee travels out-of-state without the proper approvals.	L	L	Executive director authorizes out-of-state travel, in accordance with State Travel Regulations.	Yes
	Travel advances are issued without the proper approval.	NA	NA	No travel advances	NA
	Travel claims are submitted and paid for travel that did not occur.	L	L	Executive director and DAS review and certify accuracy of travel claims for agency employees and board members.	Yes
F&A Policy 9, <i>Revenue Recognition of Taxes, Licenses, Permits and Fees on the Modified Accrual Basis</i>	Revenue recognition of taxes, licenses, permits, and fees is not made in accordance with the provisions of Policy 9.	M	L	DAS is responsible for compliance, with transactions reviewed by Division of Accts.	Yes
F&A Policy 10, <i>Dues and Subscriptions</i>	Initial membership dues and subscriptions exceeding \$1,000 are not approved by the Budget Division of the Department of Finance and Administration.	L	L	DAS is responsible for compliance, with transactions reviewed by Division of Accts.	Yes
	Renewals of membership dues and subscriptions exceeding 10% of the prior year cost are not approved by the Budget Division of the Department of Finance and Administration.	L	L	DAS is responsible for compliance, with transactions reviewed by Division of Accts.	Yes
F&A Policy 11, <i>Recovery of Overpayment to Employees</i>	Overpayments made to employees are not recovered in accordance with the provisions of Policy 11.	L	L	DAS is responsible for compliance, with transactions reviewed by Division of Accts.	Yes

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 12, <i>The Use of Journal Vouchers for Billing Those Agencies and Departments Using the Facilities of State Parks</i>	Journal vouchers for the use of state parks are not prepared in accordance with the provisions of Policy 12.	L	L	Agency rarely uses state parks	Yes
F&A Policy 13, <i>Receipt Of ACH Debits</i>	Automated Clearing House (ACH) debits are not used according to the provisions of Policy 13.	L	L	No ACH debits	Yes
F&A Policy 14, <i>Use of Automated Clearing House for Transfer of Funds to Employees and Vendors</i>	Non-payroll payments to employees are not made in accordance with the provisions of Policy 14.	NA	NA	Deleted 8/12	NA
F&A Policy 15, <i>Assigning Payment Dates for the Processing of Disbursement Vouchers for Payment of Invoices</i>	Payment dates are not accurately recorded in the due date field in STARS.	NA	NA	Repealed 3/2009	NA
	Disbursement vouchers are not submitted to the Division of Accounts at least four (4) business days prior to the due date.	L	M inherent/ L residual	Implicit office policy is that DAS submits disbursement vouchers as soon as possible after payables arrive.	Yes
F&A Policy 16, <i>Employee Housing and Meals</i>	Employee housing plans are not submitted to the Commissioner of Finance and Administration by December 31 of each year.	NA	NA	No employees in state housing	NA
	Rent is not charged to employees receiving housing in accordance with Policy 16.	NA	NA	No employees in state housing	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 17, <i>Long Distance Telephone Calls</i>	Personal long-distance calls are made on state telephones.	L	M inherent/ L residual	Policy prohibits personal long-distance calls. Supervisors monitor.	Yes
	Personal calls are made on state issued cellular telephones.	L	L		Yes
F&A Policy 18, <i>Journal Vouchers Type J</i>	Type J journal vouchers are not initiated in accordance with the guidelines established in Policy 18.	NA	NA	Don't initiate J type vouchers	NA
	Journal vouchers received by the paying agencies totaling \$2,500.01 through \$350,000.00 are not processed, completed, entered into STARS and sent to the Division of Accounts or returned with questions to the billing department within (5) working days of the receipt of the journal voucher.	M	L	Upon receipt of JV's from Secretary of State, counsel checks docket numbers, usually within 5 days.	Yes
F&A Policy 19, <i>Issuance of Duplicate Warrants</i>	A duplicate warrant is issued to an employee or vendor without the cancellation of the original warrant.	L	M inherent/ L residual	DAS responsible for management of duplicate warrants; in FY10 agency had no duplicate warrants	Yes
F&A Policy 20, <i>Recording of Federal Grant Expenditures and Revenues</i>	All federal grants are not loaded onto the STARS Grant Control Table.	NA	NA	Agency administers no federal grants	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
	All grant related expenditure and revenue transactions are not coded with the appropriate grant(s) at the time the initial transaction is recorded.	NA	NA	Agency administers no federal grants	NA
	Drawdowns of federal funds are not requested timely.	NA	NA	Agency administers no federal grants	NA
	The STARS "Schedule of Grant Activity" Report is not used as the basis for preparing the Schedules of Expenditures of Federal Awards.	NA	NA	Agency administers no federal grants	NA
F&A Policy 21, <i>Collateral Deposited with the State</i>	Collateral securities accepted are not in registered form.	NA	NA	No collateral deposited with state	NA
	Collateral securities are received that are not the type of securities the department is authorized to accept under the particular law authorizing or requiring the department to demand the deposit of such collateral.	NA	NA	No collateral deposited with state	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
	Collateral securities are not fully registered as to principal and interest in such manner as to identify the state and the appropriate agency or department as holder of such collateral and to also identify the individual or concern placing such collateral.	NA	NA	No collateral deposited with state	NA
	The State Treasurer is not provided with a listing of individuals authorized to initiate collateral transactions on behalf of the department/agency, and a list of individuals authorized to pick up collateral from the State Treasurer.	NA	NA	No collateral deposited with state	NA
F&A Policy 22, <i>Subrecipient Monitoring</i>	An annual monitoring plan is not submitted to the Department of Finance and Administration, Division of Resource Development and Support, by October 1st of each year.	NA	NA	Agency has no grant recipients.	NA
	All subrecipients are not identified in the annual monitoring plan.	NA	NA	Agency has no grant recipients.	NA
	Subrecipients are not monitored in accordance with the requirements of Policy 22.	NA	NA	Agency has no grant recipients.	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 23, <i>Accounts Receivable - Recording, Collection, and Write-Offs</i>	Collection efforts are not made to collect amounts due to the State of Tennessee where goods or services have been provided and payment is due.	L	M inherent/ L residual	DAS monitors.	Yes
					Yes
	Accounts receivable are written off without the approval of F&A's Division of Accounts.	L	L	No write offs	Yes
F&A Policy 24, <i>Electronic Commerce</i>	Statewide contracts are not used for all forms of electronic commerce including acceptance via use of point-of-sale equipment, telephone, fax, Internet or through charges originating with a third party vendor that is providing services on behalf of the State.	NA	NA	No electronic commerce	NA
F&A Policy 25, <i>Deposit Practices Policy</i>	Funds are not deposited immediately as required by TCA 9-4-301 and as defined by F&A Policy 25.	H	M	Specific written procedures outline steps to assure timely deposit. SSS conducts independent review and reports on agency compliance with Policy 25.	Yes
F&A Policy 26, <i>Employee Fringe Benefits and Supplemental Wages</i>	Fringe benefits and supplemental wages received by State employees are not identified and reported to the Internal Revenue Service.	NA	NA	IRS reporting centralized; not in agency control	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
F&A Policy 27, <i>Moving Policy</i>	Payment of moving expenses are not approved in advance by the Budget Office of the Department of Finance and Administration.	NA	NA	No moving expenses offered	NA
F&A Policy 28, <i>Payroll Inserts</i>	Approval for payroll inserts is not obtained in advance from the Chief of Accounts, through the Director of Payroll.	NA	NA	Repealed 12/2011	NA
F&A Policy 29, <i>State Contracts for Credit and Debit Cards</i>	Payment or debit cards are acquired outside the statewide contract established by the Department of Finance and Administration.	L	L	Executive Director and DAS monitor.	Yes
	Unauthorized purchases are made with agency credit or debit cards.	L	M inherent/ L residual	Executive Director and DAS monitor.	Yes
F&A Policy 30 FFATA	Reporting not completed as required for subgrants of federal funds.	NA	NA	HSDA has no federal grants	NA
Governor Haslam Executive Order 20, <i>Conflict of Interest Disclosure Act</i> (T.C.A. §§ 8-50-501 et seq., 2-10-128 and 2-10-129)	The department is not in compliance with the requirements and disclosures required by executive order .	M	M inherent/ L residual	Staff complies with Exec Order 20. Board members and staff annually review and acknowledge strict conflict of interest requirements set forth in HSDA statute.	Yes
<i>Prompt Payment Act</i> (TCA 12-4-703)	Payments are not made on a timely basis and in accordance with all purchase orders and contracts, or within 45 days after receiving the invoice if not specified.	L	M	Implicit office policy is that DAS makes payments as soon as possible after invoices arrive and follows state purchasing system policies for Purchase Orders, as reviewed by Division of Accts and central system controls. 2012 AP7 report shows 97% timely.	Yes

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
<i>State Purchasing Manual</i>	Bids are not obtained for purchases when required.	L	L	DAS follows state purchasing policies	Yes
	Unapproved purchases are made.	L	L	DAS submits purchasing needs in writing (via email) to Shared Services Solutions (SSS). SSS staff determines proper procurement procedure and makes purchase. AA1 verifies receipt of goods and sends invoice to DAS for review, coding & approval. HSDA scans invoice and sends to SSS for voucher entry. ED and DAS are notified of voucher via email and then approves payment voucher after review in Edison.	Yes
<i>Year-end Accounting Reference Manual</i> promulgated by the Department of Finance and Administration	The Schedule of Expenditures of Federal Awards (SEFA) and Supplementary Information Schedule are not prepared in accordance with the requirements of <i>OMB Circular A-133</i> .	NA	NA	No federal awards	NA
	The SEFA and Supplementary Schedule are not submitted by the deadline date specified in the <i>Year-end Accounting Reference Manual</i> .	NA	NA	No federal awards	NA

HSDA Worksheet 2

Law, Rule, Regulation, etc.	Risk or Exposure	Impact	Likelihood	Control Activity to Ensure Compliance Responsible Area?	Control Operating Effectively?
AGENCY SPECIFIC LAWS, RULES, REGULATIONS THAT ARE SIGNIFICANT					
TCA 68-11-1607	Certificates of Need properly granted.	M	L	Applicant provides affidavit attesting to truthfulness of all information. Completeness review by agency staff. Analysis by reviewing agency (TDH, TDMHSAS, TDID) Board's determination that criteria of need, economic feasibility and orderly development are met. Comprehensive Conflict of Interest procedures are in place in law and agency rules. Revocation of Certificates is an option if granted due to false information submitted by an applicant.	Yes
0720-12-.05 REGISTRATION OF EQUIPMENT	Medical equipment is not registered within 90 days of acquisition. (95% by 2012)	L	M	Medical equipment owners notified of requirement and penalties. Electronic registration forms available on website for downloading and electronic mailing.	Yes
TCA 68-11-1607	Medical equipment utilization filed annually.	M	L	Medical equipment owners notified of requirement and penalties. Electronic registration forms available on website for downloading and electronic mailing.	Yes

HEALTH SERVICES & DEVELOPMENT AGENCY

Audit Committee Charter

MISSION

To ensure the Agency's assets are safeguarded from fraud, waste, and abuse by complying with all applicable laws, rules, policies, and procedures.

PURPOSE

The purpose of the audit committee is to assist the board in its oversight of the Agency and to provide support and oversight to management for the following duties:

- Risk assessment and risk management process;
- Review of the agency's internal control structure;
- Review of Standards of Conduct including the agency's code of conduct, and
- Review of the audit process.

ORGANIZATION

The Committee shall be a standing committee of the board and shall consist of a minimum of three members and a maximum of five members of the board. The board shall choose the members of the Committee and the Chair of the Committee. The Chair of the Committee should preferably have some accounting or financial management background. Each member of the Committee should have an adequate background and education to allow a reasonable understanding of the information presented in the reports of the Agency and the comments of auditors with regard to internal control and compliance issues. The members of the Committee must be independent from the appearance of other interests that are in conflict with their duties as a member of the audit committee. Each member will serve a term of one year and may be reappointed by the board. A majority of the Committee shall constitute a quorum. The Committee shall meet at least annually. Meetings will be scheduled at the conclusion of a regularly scheduled board meeting as needed except in the event of an emergency. The audit committee shall record minutes of its meetings.

RESPONSIBILITIES

The Audit Committee shall review and reassess, at least once annually, the adequacy of the charter and report its conclusions to the board. The following duties will be performed:

Risk Assessment, Internal Controls, and Risk Management Process

- Review management's formal process for assessing risk;
- Review and advise management regarding the adequacy of internal controls:
- Review documentation of risk assessment results to ensure that internal controls are sufficient to mitigate the assessed risks;
- Review of the agency's process for monitoring compliance with laws and regulations;
- Report findings to the board at least once annually.

Standards of Conduct

- Formally reiterate, on an annual basis, to the board, management and staff their responsibilities for preventing, detecting, and reporting to management or the audit committee any fraud, waste, and abuse;
- Ensure procedures exist for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters, including those made directly to the audit committee;
- Review the code of conduct to ensure that it is easy to access, widely communicated, easy to understand and implement, includes a confidential mechanism for reporting code violations, includes the conflict of interest policy and guidelines, and is enforced. Inform members of their duty to report conflict of interest, fraud, waste, and/or abuse.
- Inform the Comptroller of the Treasury's office in the unlikely event fraud is detected.
- Review the conflict of interest policy to ensure that conflict of interest is clearly defined and that comprehensive guidelines are maintained. Annual review and acknowledgement in writing is required for board members and staff. Potential conflicts are to be adequately resolved and documented.

Audit Process

- Review Financial and Performance Audits conducted by the Comptroller of the Treasury's Office.
- Ensure management has taken appropriate action on audit recommendations.

- Serve as a facilitator for the audit process including advising auditors of any information they may receive regarding fraud or weaknesses in the agency's internal controls. The committee will request a meeting with the lead auditor at the beginning of the audit cycle, review the audit plan, and provide as much information as possible on the front end of the process. This meeting will be scheduled at the end of one of the Agency's regularly scheduled meetings.



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
SHARED SERVICES SOLUTIONS

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MARK A. EMKES
COMMISSIONER

CAROL WHITE
DIRECTOR

MEMORANDUM

TO: Melanie Hill, Executive Director
Health Services and Development Agency

FROM: J. Allen Staley, CPA, Operations Director
Shared Services Solutions

DATE: November 29, 2012

RE: Deposits Reconciliation

Pursuant to contract ID-1131763-00, Shared Services Solutions has prepared an independent reconciliation of HSDA deposits for the months March through October, 2012. The summarized results are as follows:

Deposits Reconciliation

	# Deposits	Deposit Amount	% Reconciled	Compliance with Finance and Administration Policy 25
MARCH, 2012	7	\$ 36,432.99	100%	7 of 7
APRIL	1	25,748.21	100%	1 of 1
MAY	5	88,304.13	100%	5 of 5
JUNE	5	21,921.00	100%	5 of 5
JULY	3	78,689.67	100%	3 of 3
AUGUST	6	191,354.50	100%	6 of 6
SEPTEMBER	4	26,538.00	100%	4 of 4
OCTOBER	8	99,895.38	100%	8 of 8

Out of a total of 39 deposits, 100% were made timely. All 39 or 100% were also recorded timely in the accounting system. Additionally, these deposits were reconciled to the general ledger.

If additional information is needed, please let me know. Thank you.

*Shared Services Solutions provides high quality fiscal, procurement and human resource services
for small state agencies with big missions.*